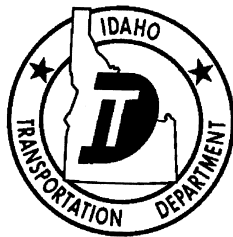


Idaho Transportation Department

Overhead Guidelines for Consultants and Practitioners



Prepared By
OFFICE OF INTERNAL REVIEW

November 2007

Idaho Transportation Department
Office of Internal Review

OVERHEAD GUIDELINES FOR CONSULTANTS

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OVERHEAD GUIDELINES FOR CONSULTANTS

I. INTRODUCTION

The information contained within these guidelines was prepared by the Idaho Transportation Department (ITD) to assist the Consultant and their independent accountants in performing accounting system reviews and providing overhead rate reports. Overhead rates are developed for the purpose of applying fringe benefits and indirect overhead expense to projects. The basis of application is direct labor. In simple terms:

Overhead Rate = Fringe Benefits + Indirect Overhead Expense ÷ Direct Labor
for the most recent fiscal year

Consultants are required to submit to ITD as part of their initial qualification package and updates, an overhead rate report for their most recently completed fiscal year.

Audited overhead reports are required for Consultants who work with ITD on contracts or combination of contracts that are \$250,000 and greater in a calendar year. Audits will be based on the most recent completed fiscal year and will establish overhead rates as a percent of direct labor. No forward pricing or rate projections will be accepted.

Reviewed overhead rate reports are required (as the minimum) from Consultants who work on smaller contracts between \$100,000 and \$250,000 in a calendar year and on Term Agreements with an accumulation of tasks less than \$250,000 in a calendar year. An overhead rate report is normally not required for a contract or on a term agreement when the accumulation of tasks for a consultant is under \$100,000 in a calendar year.

The Overhead Audit or Review shall be performed by an independent Certified Public Accountant, an agency of the Federal government, another state highway agency, or a similar audit agency and shall be subject to review and/or modification by the ITD Office of Internal Review for compliance with the guidelines expressed herein or otherwise described by the appropriate federal agency. Internal Review reserves the right to review audit and review working papers as part of the acceptance.

Audits shall be performed in accordance with Generally Accepted Auditing Standards (GAAS) and shall include such tests of the accounting records and such other auditing procedures as considered necessary to determine allowability of costs in accordance with applicable contract cost principles and procedures as set forth in the Federal Acquisition Regulations (FAR), 48 CFR, Chapter 1, Part 31 (Attachment E).

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The overhead audit report shall include a statement by the auditor that the audit was conducted in accordance with generally accepted auditing standards, applicable requirements of FAR, 48 CFR, Part 31, and other procedures required by ITD.

The Overhead Rate **Review** shall include such inquiry and analytical review necessary to determine whether any material modification of the information reported is needed to conform to the requirements of the allowable costs detailed in the requirements of FAR, 48 CFR, Part 31.

Work papers of a Review should include written representations from their client's management acknowledging responsibility for maintaining an adequate job-cost accounting system.

II. ACCOUNTING SYSTEM REQUIREMENTS

All professional Consultants shall have a cost accounting system that adequately supports job costs as a prerequisite to entering into a contract, or Term Agreement with ITD.

The Consultant's accounting system should incorporate the following standards.

A. Job-Cost Accounting System

1. A numbering system to specifically identify a unique job number for each project and customer.
2. Separation and accumulation of direct (project related) and indirect (office overhead) costs in the general ledger.
3. Maintenance of individual job cost ledgers by job to support total direct cost as contained in the general ledger.
4. Reconciliation of subsidiary job cost ledgers periodically with direct costs contained in the general ledger.
5. Use of timesheets and expense reports for the separation and identification of direct and indirect costs.

B. Additional Accounting System Requirements

1. Unallowable expenses within FAR, 48 CFR, Part 31, shall be identified and excluded from the overhead rate computation.
2. **The Consultant must be able to track direct expenses in their subsidiary ledgers to support fee schedules when equipment use is billed out on a unit rate basis.**
3. Direct Labor Costs shall be accumulated and used as the basis for the overhead rate computation, being shown as disallowed costs in the Statement of Direct Labor, Fringe Benefits and General Overhead.

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The Overhead Audit shall evaluate and report on the adequacy of the consultant's accounting system to carry out the items listed in "II. A." and "II. B." above.

Overhead Reviews shall report perceived deficiencies in the consultant's accounting system identified through inquiry of the Consultant's management or otherwise identified during the review.

III. ESTIMATING SYSTEM REPORTING REQUIREMENTS

The independent accountant shall provide a statement in the audit report regarding the Consultant's method of estimating costs for pricing purposes. The statement shall indicate whether or not the Consultant's method of estimating project costs is consistent with the accumulation and reporting of costs under its accounting system (for an example, see Note 2 on page B-3). Reviews require an analytical review of rates proposed by the Consultant to determine reasonableness.

IV. DETERMINATION OF RATES

The fringe benefit and general administrative overhead rates shall be determined by removing those costs considered not allowable (showing these disallowed costs in a separate column on the Statement of Direct Labor, Fringe Benefits, and General Overhead), in accordance with FAR, 48 CFR, Part 31, from the payroll additive and the general and administrative overhead expense pools, and dividing the accumulated allowable overhead costs by the direct labor cost of the company. An Illustrative example of the presentation is on B-5, Statement of Direct Labor, Fringe Benefits, and General Overhead.

If the Consultant's normal accounting practice provides rates on a basis other than direct labor or includes other overhead rates (e.g., general and administrative), the overhead rate report shall provide a conversion to a direct labor dollar basis. The conversion to a direct labor basis is necessary to assure consistency with ITD's contracting process used in developing engineer estimates, preparing contracts, and reimbursement for work performed.

A copy of an Overhead Audit/Review Program along with sample reports, completed in accordance with the suggested reporting requirements, is included for informational purposes and can be found as an attachment within this guide (see Attachments A, B, and C).

The fringe benefit and general administrative overhead rates are based on the Consultant's fiscal year and should be determined on an annual basis. However, there are exceptions when a different basis of determination is allowed: such exceptions include (1) the Consultant has only recently gone into business, (2) the Consultant has undergone such extensive reorganization that the overhead rate for the most recently completed year does not reflect a current valid overhead rate, (3) the Consultant has only recently established an acceptable accounting system, or (4) a change in fiscal year has occurred. In these instances, a rate will be negotiated on a contract-by-contract basis using fair and reasonable rates.

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If the consultant utilizes a rate for Facilities Capital Cost of Money, the report must explain how the rate was developed and a copy of the worksheet provided. (Sample in F-2)

The Independent Accountant's Report shall identify direct billing rates for equipment usage (if applicable) and the methodology used in establishing the rate charged. Engineering firms are allowed to direct bill for company owned equipment (such as CADD, reproduction, mileage, etc.) when used on ITD projects. However, billing rates for equipment must be reasonable and allowable, based on actual costs incurred. In addition, all like-cost items used in developing equipment rates, as well as costs directly charged to other projects must be excluded from the indirect cost pools. These adjustments should be identified and excluded on the Statement of Direct Labor, Fringe Benefits, and General Overhead (B-5). **Equipment billing rates will not be allowed as direct charges in contract negotiations unless the rates are supported and assurances are provided that associated expenses are not duplicated within the overhead rate.**

Consultants should transmit a signed copy of their independent overhead rate report to:

Attn: Consultant Administration Unit
Idaho Transportation Department
PO Box 7129
Boise, ID 83707-1129

A copy of the Overhead Guidelines for Consultants may be obtained by contacting the ITD Consultant Administration Section at (208) 334-8480. Both hard copy and CD copy formats are available. The guidelines are available on the internet at:
www.itd.idaho.gov/design/cau/policies/overhead.

Audits or reviews are subject to review by ITD for compliance with State policies and limits and the accepted rate may vary based on State policies. For example, the Idaho Transportation Department limit for bonuses and incentive compensation is currently set at 15% of direct labor or 10% of total labor (excluding the bonus) depending on which is of the most benefit to the consultant. **Please include your audited/reviewed balance sheet and income statement with your request and the other required documents (see next page for requirements) to establish an overhead rate.** This will assist ITD to establish an overhead rate in a timely manner.

If you have questions regarding the interpretation of information contained herein, please contact the ITD's Internal Review Manager at (208) 334-8834.

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V. SUMMARY OF REQUIREMENTS BY AGREEMENT AMOUNT AND TYPE

| | REVIEWS | AUDITS |
|------------------------------------|---|--|
| AGREEMENT AMOUNT | Contracts or the sum of Task Agreements \geq \$100,000 or $<$ \$250,000 | A Contract or the sum of Task Agreements \geq \$250,000 |
| STANDARDS | Inquiry and Analytical Review; Statement on Standards for Accounting and Review Services; Federal Acquisition Regulations; Generally Accepted Accounting Principles | Generally Accepted Auditing Standards; Federal Acquisition Regulations; Generally Accepted Accounting Principles; Statements on Auditing Standards (SAS) |
| COST ACCOUNTING SYSTEM | Report perceived Deficiencies | Evaluation of adequacy |
| OVERHEAD RATES | Analytical Review | Statement regarding fairness of presentation |
| EQUIPMENT RATES FOR DIRECT CHARGES | Analytical Review | Examination of fairness of presentation |
| REPORTS / STATEMENTS REQUIRED | - Independent Accountant's Report to the Statement of Direct Labor, Fringe Benefits and General Overhead (Attachment C) | - Independent Accountant's Report to the Statement of Direct Labor, Fringe Benefits and General Overhead (Attachment B) |
| | - Reviewed Balance Sheet | - Report on Internal Accounting Controls (Attachment B-6) |
| | - Reviewed Income Statement | - Report on Compliance (Attachment B-8) |
| | - Brief Description of the Job-Cost Accounting System (Attachment C-2) | - Audited Balance Sheet |
| | Worksheet presentation of Statement of Direct Labor, Fringe Benefits, and General Overhead showing cost adjustments for unallowable and non-allocable expenses (Attachment C-4) | Audited Income Statement |
| | - Equipment Rates for direct charges (Attachment C-3) (a footnote to the report) | - Brief Description of the Job-Cost Accounting System (Attachment B-3) |

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| | REVIEWS | AUDITS |
|--|--|---|
| | | - Worksheet presentation of Statement of Direct Labor Fringe Benefits and General Overhead showing cost adjustments for unallowable and non-allocable expenses (Attachment B-5) |
| | | - Equipment Rates for direct charges (Attachment B-4) |
| | - Copy of the Consultant's Bonus and Incentive Compensation Policy | - Copy of the Consultant's Bonus and Incentive Compensation Policy |
| | - Copy of the Consultant's Overtime Policy | - Copy of the Consultant's Overtime Policy |

ATTACHMENT A

OVERHEAD RATE AUDIT/REVIEW PROGRAM

This program is presented as an example and is only a starting point. The program should be considered along with the user's needs, and evaluated for usage on a case-by-case basis.

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**NEGOTIATED PROFESSIONAL SERVICES
OVERHEAD AND COST RATES AUDIT/REVIEW PROGRAM**

A. Purpose and Objective

1. Purpose

This program is to provide guidance to the independent accountant in performing an audit or review of the Consultant's accounting system, and their overhead and cost rates.

The primary purpose of the audit or review of professional consulting firms is to **validate the cost elements** and procedures used on the negotiated agreements with the Idaho Transportation Department (ITD). Audits may require verification of rates proposed by the Consultant. In certain circumstances, the independent accountant may be required to actually develop cost rates.

Federal Acquisition Regulations (FAR) outlined in the objectives below identify specific expenses that are allowable and unallowable under the Code of Federal Regulations (CFR). The FAR also identifies the cost accounting standards for financial statements on which overhead rates can be based. Underlying concepts of FAR include reasonableness, allocability, and compliance with Cost Accounting Standards, GAAP, and specific limitations set forth in CFR 31.205.

ITD is looking for reports that indicate the Consultant's overhead rate:

- a. Was developed using an acceptable accounting system – a system that allows for job costing and classification of direct/indirect costs.
- b. Was developed based upon proper, consistent historical cost data.
- c. Was developed from GAAP-based financial statements adjusted for unallowable and non-allocable costs as outlined in CFR 31.205.

2. **Audit** Objectives

- a. The primary objectives of an overhead **audit** are to perform an **audit** in accordance with the criteria required by ITD and applicable generally accepted auditing standards. Criteria shall include determining compliance with:
 - (1) Cost Principles contained in Federal Acquisition Regulations, 48 CFR, Chapter 1, Part 31; and
 - (2) Generally Accepted Accounting Principles (GAAP).
- b. To provide a report that shall include:
 - (1) A statement briefly explaining the Consultant's estimating system and whether job estimates are prepared in accordance with the accounting system.

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- (2) A statement as to whether the accounting system is adequate for job-order cost accounting.
- (3) A statement attesting whether the internal control structure is adequate to ensure proper job costs in accordance with standards and contract requirements; and, a listing of any related internal control weaknesses.
- (4) A statement as to whether the Consultant complied with applicable criteria listed in 2.a above in the development of cost rates.
- (5) A schedule of annual expenses; identified and excluded unallowable and non-allocable expenses; net (allowed/accepted) expenses; annual direct labor; and the quotient of net expenses divided by direct labor (see example Schedule on page B-5).
- (6) Footnote(s) of direct charge rates for equipment, with methodology used to establish the rate, and assurance that expense categories used to develop the direct charge rate(s) are not included or duplicated within the computed Overhead Rate.
- (7) A brief description of the firm's Job-Cost Accounting System.

3. Review Objectives

- a. To perform a review in accordance with the criteria required by ITD and the American Institute of Certified Public Accountants. Criteria shall include determining whether any material modifications should be made to the information to conform with:
 - (1) Generally Accepted Accounting Principles (GAAP); and
 - (2) Cost principles contained in Federal Acquisition Regulations, 48 CFR, Chapter 1, Part 31.
- b. To provide a report that shall include:
 - (1) A statement that all information included in the financial statements is the representation of management.
 - (2) A statement whether any material modifications should be made to the Statement of Direct Labor, Fringe Benefits, and General Overhead to comply with criteria listed in 3.a above.
 - (3) A schedule of annual expenses; identified and excluded unallowable and non-allocable expenses; net allowed/accepted expenses; annual direct labor; and the quotient of net expenses divided by direct labor (see example Schedule B-5).
 - (4) Footnotes of direct charge rate(s) for equipment, with methodology used to establish the rate; and that expense categories used in developing the direct

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charge rate(s) are not included or duplicated within the computed Overhead Rate.

(5) A brief description of the firm's Job-Cost Accounting System.

B. Planning and Background Review

| | <u>W/P Ref.</u> | <u>Auditor</u> |
|--|-----------------|----------------|
| 1. Planning | | |
| The program steps are designed as a guide to assist in accomplishing the purpose and objectives of an audit or review. To do this, planning should be such that the accountant's and the Consultant's time are used efficiently and effectively. | | |
| a. To plan for an efficient and effective use of time. The approach should be such that a portion of the effort can be accomplished prior to any needed visit to the consultant's office. This will entail an approach whereby the accountant and supervisor must develop a plan to utilize in-house capabilities and the Consultant's ability to furnish financial information plus supporting documentation, as well as previous knowledge of the Consultant. | _____ | _____ |
| b. Develop an Engagement Letter. | _____ | _____ |
| 2. Background Review | | |
| a. Begin work paper file; i.e., begin project time analysis and complete a Statement of Independence. | _____ | _____ |
| b. Obtain a reasonable understanding of the client's business by reviewing prior working papers and note the weaknesses, adjustments, and rates. | _____ | _____ |

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| | <u>W/P Ref.</u> | <u>Auditor</u> |
|---|-----------------|----------------|
| c. Contact the Consultant and request the trial balance for the reporting period, and for the most current period. (When feasible, obtain a printout containing the accounting records. These records should be in detail sufficient to enable the accountant to extract a statistical sample for testing purposes, if required, and to reconcile to the trial balance.) Set a time frame in which responses are needed and follow-up the conversation with a written confirmation. | _____ | _____ |
| d. Request that the Consultant provide a detailed overhead schedule of expenses. (Example on Attachment B-5). | _____ | _____ |
| e. Request a copy of the Consultant's CPA audited financial statements for the prior period, if available. | _____ | _____ |

C. Review and Evaluation of Internal Controls

1. **Audit** standards require that sufficient understanding of the internal control structure be obtained in order to plan the audit and to determine the nature, timing, and extent of tests to be performed.

- a. This involves only those major internal controls over the areas that apply to contracts with ITD. This is generally limited to the control system for job costing and those accounts and elements that comprise the overhead accounts.

For example: We are not necessarily concerned whether the Consultant has an adequate system to safeguard and account for the firm's cash and investments. However, we are concerned that they have an adequate job-cost accounting system including proper recording and segregation of direct and indirect cost (e.g., payroll) and identification and segregation of unallowed expenses.

- b. The extent of **audit** testing will be determined by the adequacy of the internal controls.
 - c. When performing a **review** of overhead rates the independent accountant is to perform inquiry and analysis of the major internal controls related to the control system for job costing and those accounts and elements that comprise the overhead accounts. The accountant should be satisfied that, based upon the representations of management, an adequate system for recording employee time and other direct project costs exists, and that the billing system allows for accurate billing to ITD. Responses to accountant inquiries should also indicate that the accounting system

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has an adequate job-cost accounting system including segregation of direct and indirect costs, and identification and segregation of unallowed expenses.

2. For **reviews**, a summary of inquiry, responses, and all management communication should be documented in the review work papers.

| | <u>W/P Ref.</u> | <u>Auditor</u> |
|---|-----------------|----------------|
| a. Document the audit or review of the internal control structure. For audits , appropriate questionnaires, flow charts, and/or narrative information should be used – the preliminary evaluation must be summarized including the auditors conclusions as to the expected reliability of the internal control structure. | _____ | _____ |
| b. For audits , correlate the reliance/non-reliance on the internal control structure to the level of testing in Section D. | _____ | _____ |

D. Verification and Analysis

| | <u>W/P Ref.</u> | <u>Auditor</u> |
|---|-----------------|----------------|
| 1. Reconcile the Consultant's trial balance and overhead schedule with their GAAP based financial statement (Balance Sheet and Income Statement). Identify material differences and resolve with the Consultant. | _____ | _____ |
| 2. Using the Consultant's GAAP based financial statements (Balance Sheet & Income Statement), prepare a worksheet, similar to the example shown on page B-5, to develop an overhead schedule of Direct Labor, Fringe Benefits and Administrative Expenses: | _____ | _____ |
| a. Review (for both audits and reviews) and verify (audits only) on a test basis, fringe benefit and general overhead accounts for unallowable costs in accordance with the 48 CFR, Chapter 1, Part 31. A list of the more common adjustment for FAR is attached (see Attachment D). Note any income accounts that might offset an overhead expense account. (Extra effort may be required to review depreciation expenses, equipment leases, and rent paid to a related third party.) | _____ | _____ |

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| | <u>W/P Ref.</u> | <u>Auditor</u> |
|---|-----------------|----------------|
| b. Audits: Depending on the number of transactions within accounts tested, consideration should be given to obtaining sample sizes by methods (statistical or judgmental) that will allow projection of the audit findings. The approach to audit sampling should be thoroughly documented. (This step is not required for reviews .) | _____ | _____ |
| | _____ | _____ |
| 3. Review and verify payroll labor rates and time reporting methods. Support direct and indirect labor costs used in rate development. (Verification is not required for reviews.) | _____ | _____ |
| | _____ | _____ |
| 4. If applicable, review/calculate the facilities capital cost of money in accordance with 48 CFR, 31-205-10. (Attachment F for 48 CFR 9904. 414). | _____ | _____ |
| | _____ | _____ |
| 5. Determine if the Consultant is consistent in direct charging certain costs such as vehicle expenses, supplies, etc., between overhead and direct expenses. | _____ | _____ |
| | _____ | _____ |
| 6. If direct charge rates are used for company owned equipment, review/verify costs and evaluate computations. Verification is not required for reviews . | _____ | _____ |
| | _____ | _____ |
| Ensure expenses for direct charge rates are not included or duplicated within the computed overhead rate. | _____ | _____ |
| | _____ | _____ |
| E. Summary and Evaluation | | |
| | <u>W/P Ref.</u> | <u>Auditor</u> |
| 1. Discuss the results of the audit/review with the Consultant and obtain their concurrence and/or identify areas of disagreement. Make sure the Consultant understands the results are preliminary and subject to ITD's review. Document the Consultant conference thoroughly. | _____ | _____ |
| | _____ | _____ |
| 2. Finalize the results of audit/review and prepare the audit/review report. Include a copy of the Statement of Overhead Expenses and Notes as an attachment to the report. | _____ | _____ |
| | _____ | _____ |
| 3. Index, reference and cross reference work papers. | _____ | _____ |
| | _____ | _____ |
| 4. Other steps. | _____ | _____ |
| | _____ | _____ |

ATTACHMENT B

AUDIT

EXAMPLE OF OVERHEAD AUDIT REPORTS

The following Overhead Audit Reports are presented as an illustration and are not necessarily complete. The user needs to examine the latest GAAS or other appropriate standards to verify any changes in the reporting method or format.

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FOR ILLUSTRATIVE PURPOSES ONLY!

**INDEPENDENT ACCOUNTANT'S AUDIT REPORT
ON STATEMENT OF DIRECT LABOR, FRINGE
BENEFITS, AND GENERAL OVERHEAD**

The Board of Directors
ABC Engineering, Inc.

We have audited, in accordance with generally accepted auditing standards, the financial statements of ABC Engineering, Inc. for the year ended December 31, 20XX, and have issued our report thereon dated June 18, 20XX.

We have also audited the accompanying Statement of Direct Labor, Fringe Benefits and General Overhead of ABC Engineering, Inc. for the year ended December 31, 20XX. This statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement of Direct Labor, Fringe Benefits, and General Overhead is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement was prepared on a basis of accounting practices prescribed by Subpart 31.2 of the Federal Acquisition Regulations (FAR) and certain other federal and state regulations as discussed in Note 2 on page B-3, and is not intended to be a presentation in conformity with generally accepted accounting principles.

The statement of direct labor, fringe benefits and general overhead of ABC Engineering, Inc. for the year ended December 31, 20XX, has not been examined by the applicable government authorities and is subject to final determination by them. Since many types of expenditures are susceptible to varying interpretation of the cost principles contained in the FAR described in Note 2, the amounts reported in the accompanying statement may be subject to adjustment at a later date upon final determination by the respective government authorities.

In our opinion, the Statement referred to above presents fairly, in all material respects, the direct labor, fringe benefits and general overhead of the Company for the year ended December 31, 20XX on the basis of accounting described in Note 2.

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This report is intended solely for the use and information of the Board of Directors and management of ABC Engineering, Inc., the Idaho Transportation Department and applicable government authorities. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Signature

(Date)

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ABC ENGINEERING, INC.

**NOTES TO STATEMENT OF DIRECT LABOR,
FRINGE BENEFITS, AND GENERAL OVERHEAD**

For the year ended December 31, 20XX

1. The Company

ABC Engineering, Inc. is a professional design and engineering firm providing consultation in the area of planning, engineering and design. The Company's projects are diverse, including industrial and public facilities, transportation and infrastructure.

The Company was founded in 1982, and its clients include private sector businesses, public utilities, architect-engineers/contractors, and all levels of government. Revenues are derived from billings for services, equipment and reimbursable expenses. The Company has approximately 50 percent governmental and 50 percent private contracts. Revenues are recognized on these contracts as costs are incurred.

2. Basis of Accounting and Description of Accounting Systems

The Company's policy is to prepare its overhead schedules, which support the statement of direct labor, fringe benefits and general overhead, on the basis of accounting practices prescribed by Cost Accounting Standards Chapter 99, Subparts 9904.401, 9904.402, and 9904.410 and Chapter 1, Part 31 of the Federal Acquisition Regulations, 48 CFR. Accordingly, the above mentioned statement is not intended to present the results of operation of the Company in conformity with generally accepted accounting principles.

The Company maintains a job-order cost accounting system for the recording and accumulation of costs incurred under its contracts. Each project is assigned a job number so that costs may be segregated and accumulated in the Company's job-order cost accounting system.

The Company's method of estimating costs for pricing purposes during the proposal process is consistent with the accumulation and reporting of costs under its job-order cost accounting system.

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ABC ENGINEERING, INC.

**NOTES TO STATEMENT OF DIRECT LABOR,
FRINGE BENEFITS, AND GENERAL OVERHEAD**

For the year ended December 31, 20XX

3. Equipment Use Charges

Effective January 1, 20XX, the Company began to account for Computer machine costs as direct reimbursable costs. Prior to that date, Computer costs were accounted for as overhead. This rate does not include any profit margin, estimated replacement costs, or interest. Expense categories used to develop the billing rate for computers are not included in the firm's overhead rate. The audited Computer rate for the year ended December 31, 20XX is \$_____ per hour.

4. Summary

The following tabulations summarize the allowable overhead rates incurred by the Company for the year ended December 31, 20XX:

| | | |
|--------------|------------------------|-----------------|
| Description: | Fringe Benefit Rate | 32.068% |
| | General Overhead Rate | <u>122.462%</u> |
| | Combined Overhead Rate | <u>154.530%</u> |

FOR ILLUSTRATIVE PURPOSES ONLY!

**STATEMENT OF DIRECT LABOR, FRINGE
BENEFITS, AND GENERAL OVERHEAD
FOR THE YEAR ENDED DECEMBER 31, 20XX**

ABC ENGINEERING, INC.

| DESCRIPTION | TOTAL REPORTED COSTS | UNALLOWABLE COSTS | REFERENCE FOR UNALLOWABLE COSTS | ALLOWABLE COSTS | % OF DIRECT LABOR |
|--|----------------------------|----------------------|---------------------------------------|--------------------|-------------------------|
| Direct Labor | \$ 392,086 | \$ (92,553) | K | \$ 299,533 | |
| Fringe Benefits | | | | | |
| F.I.C.A. | \$ 36,278 | (1,559) | N | \$ 34,719 | |
| S.U.T.A. | 7,899 | | | 7,899 | |
| F.U.T.A. | 1,187 | | | 1,187 | |
| Group Insurance | 9,021 | | | 9,021 | |
| Worker's Compensation | 6,982 | | | 6,982 | |
| Vacation, Holiday, & Sick Pay | 36,247 | | | 36,247 | |
| Total Fringe Benefits | \$ 97,614 | (1,559) | | \$ 96,055 | 32.068% |
| GENERAL & ADMINISTRATIVE EXPENSES | | | | | |
| Auto Leasing | 7,285 | | | 7,285 | |
| Auto & Truck Expenses | 27,011 | (14,519) | L & M | 12,492 | |
| Advertising | 840 | (840) | F | | |
| Bank Charges | | 266 | B | 266 | |
| Blueprints & Copies | 734 | (734) | D | | |
| Bonus | 35,068 | | | 35,068 | |
| Contributions | 635 | (635) | F | | |
| Dues & Subscriptions | 7,682 | | | 7,682 | |
| Employee Benefits | 10,249 | (9,021) | H | 1,228 | |
| Entertainment | 1,376 | (1,376) | G | | |
| Equipment Rental | 217 | | | 217 | |
| Indirect Labor | 154,305 | | | 154,305 | |
| Insurance | 70,052 | (8,290) | H & I | 61,762 | |
| Interest | 149 | (149) | E | | |
| Legal & Accounting | 5,535 | | | 5,535 | |
| License & Fees | 20 | | | 20 | |
| Maintenance & Repair | 5,516 | | | 5,516 | |
| Miscellaneous | 13,183 | (6,268) | G & D | 6,915 | |
| Office Expense | 10,151 | | | 10,151 | |
| Postage | 2,035 | (81) | C | 1,954 | |
| Taxes-Property | 1,690 | | | 1,690 | |
| Sub-Contract | 14,936 | (14,936) | D | | |
| Supplies | 7,594 | (7,594) | D | | |
| Telephone | 13,831 | | | 13,831 | |
| Rent | 21,494 | - 0 - | | 21,494 | |
| Utilities | 1,395 | | | 1,395 | |
| Office Furniture | 533 | (533) | A | | |
| Office Equipment | 1,466 | (1,466) | A | | |
| Field Equipment | 30,326 | (30,326) | A | | |
| Computer Hardware | 15,060 | (15,060) | A | | |
| Computer Software | 1,212 | (1,212) | A | | |
| Vehicle Purchase | 33,750 | (33,750) | A | | |
| Depreciation | | 43,210 | A | 43,210 | |
| Travel | 35,151 | (25,285) | J | 9,866 | |
| Total Overhead | 495,413 | (128,599) | | 366,814 | 122.462% |
| COMBINED OVERHEAD | \$ 593,027 | \$ (130,158) | | 462,869 | 154.530% |

FAR & ADJUSTMENT REFERENCES

| | | | |
|---|--|---|--|
| A | Section 179 assets reported at cost. Used CPA prepared GAAP depreciation schedule & reported under depreciation. | G | 31.205-1 & 14 Unallowed advertising, gifts, & entertainment. |
| B | Credit for allowable expenses excluded by mgmt. | H | Health Ins. Duplicated under Fringe Benefits & G & A. |
| C | 31.205-14 Unallowed Postage for Christmas gifts | I | 31.205-19(a)(2)(iv) Unallowed life ins. Company beneficiary. |
| D | 31.201-4 Project related expenses reimbursed | J | 31.201-5 Direct Lodging & Per Diem Reimbursed |
| E | 31.205-20 Interest expense voluntarily deducted by mgmt. | K | Overstated Direct Labor (Pass through labor). |
| F | 31.205-8 Contributions voluntarily deducted by mgmt. | L | 31.201-5 Direct Mileage Reimbursed. |
| | | M | 31.201.4 Project related mileage. |
| | | N | Adjusted payroll taxes to offset employee paid taxes. |

IDAHO TRANSPORTATION DEPARTMENT
OFFICE OF INTERNAL REVIEW
FOR ILLUSTRATIVE PURPOSES ONLY!

**INDEPENDENT ACCOUNTANT'S AUDIT REPORT
ON INTERNAL ACCOUNTING CONTROLS**

The Board of Directors
ABC Engineering, Inc.

We have audited the Statement of Direct Labor, Fringe Benefits and General Overhead of ABC Engineering, Inc. for the year ended December 31, 20XX and have issued our report thereon dated June 18, 20XX.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement.

In planning and performing our audit of the statement of direct labor, fringe benefits and general overhead of ABC Engineering, Inc. for the year ended December 31, 20XX, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the aforementioned statement and not to provide assurance on the internal control structure.

The management of the Company is responsible for establishing and maintaining the internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the Statement of Direct Labor, Fringe Benefits, and General Overhead in accordance with practices prescribed by Subpart 31.2 of the Federal Acquisition Regulations. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal accounting control structure policies and procedures as being in the following categories: cash disbursements and payroll.

For the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the statements of direct labor, fringe benefits and general overhead being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

IDAHO TRANSPORTATION DEPARTMENT
OFFICE OF INTERNAL REVIEW

Our study and evaluation made for the limited purpose described in the preceding paragraphs would not necessarily disclose all material weaknesses under standards established by the American Institute of Certified Public Accountants. Accordingly, we do not express an opinion on the system of internal accounting control of ABC Engineering, Inc. taken as a whole, or on any of the categories of controls identified above. However our study and evaluation and audit disclosed no condition that we consider to be a material weakness as defined above.

We noted certain matters involving the internal control structure and its operation that we have reported to the management of ABC Engineering, Inc. in a separate letter dated April 1, 20XX.

This report is intended solely for the use and information of the Board of Directors and management of ABC Engineering, Inc., the Idaho Transportation Department, and applicable government authorities. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Signature

(Date)

NOTE: Provide a copy of the accountant's letter when non-reportable conditions involving internal controls are communicated to management, even though the conditions are not considered material enough to include in the report.

IDAHO TRANSPORTATION DEPARTMENT
OFFICE OF INTERNAL REVIEW
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INDEPENDENT ACCOUNTANT'S AUDIT REPORT ON COMPLIANCE

The Board of Directors
ABC Engineering, Inc.

We have audited the Statement of Direct Labor, Fringe Benefits and General Overhead of ABC Engineering, Inc. for the year ended December 31, 20XX and have issued our report thereon dated June 18, 20XX.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement.

Compliance with laws, regulations and contracts applicable to the Company is the responsibility of the Company's management. As part of obtaining reasonable assurance about whether the statement is free of material misstatement, we performed tests of the Company's compliance with Cost Principles located in 48 CFR, Chapter 1, Part 31, of the Federal Acquisition Regulations. However, the objective of our audit of the statement was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the Company complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that the company had not complied, in all material respects, with those provisions.

This report is intended solely for the use and information of the Board of Directors and management of ABC Engineering, Inc., the Idaho Transportation Department, and applicable government authorities. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Signature

(Date)

ATTACHMENT C

REVIEW

EXAMPLE OF OVERHEAD REVIEW REPORT

The following Overhead Review Report is provided for illustrative purposes only and is not considered to be complete. The user needs to examine the latest Generally Accepted Accounting Principles (GAAP), Statements on Standards for Accounting and Review Services (SSARS), and other appropriate standards to verify any changes in the reporting method or format.

Idaho Transportation Department
Office of Internal Review

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**INDEPENDENT ACCOUNTANT'S REVIEW REPORT
ON STATEMENT OF DIRECT LABOR, FRINGE
BENEFITS, AND GENERAL OVERHEAD**

The Board of Directors
ABC Engineering, Inc.

We have reviewed the accompanying Statement of Direct Labor, Fringe Benefits, and General Overhead of ABC Engineering, Inc. for the year ending December 31, 20XX in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in this statement is the representation of management of ABC Engineering, Inc.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the statement taken as a whole. Accordingly, we do not express such an opinion.

The accompanying special-purpose statement was prepared to present direct labor, fringe benefits and general overhead pursuant to accounting practices and cost principles prescribed by the Federal Acquisition Regulations referred to in Note ____, and is not intended to be a complete presentation of ABC Engineering, Inc.'s expenses.

Based on our review, we are not aware of any material modifications that should be made to the accompanying statement of direct labor, fringe benefits, and general overhead in order for it to be in conformity with generally accepted accounting principles and the requirements for allowable expenses pursuant to the Federal Acquisition Regulations referred to in Note ____.

This report is intended for the information and use of the board of directors and management of ABC Engineering, Inc., the Idaho Transportation Department, and applicable government authorities. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Signature

(Date)

| |
|--|
| <p>NOTE: The Statement of Direct Labor, Fringe Benefits, and General Overhead would be accompanied with this report along with appropriate footnotes.</p> |
|--|

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ABC ENGINEERING, INC.

**NOTES TO THE STATEMENT OF DIRECT LABOR,
FRINGE BENEFITS, AND GENERAL OVERHEAD**

For the year ended December 31, 20XX

1. SPECIAL-PURPOSE STATEMENT

The accompanying Statement of Direct Labor, Fringe Benefits, and General Overhead is a partial presentation of the Company's operating expenses. This statement is intended to present allowable fringe benefits and general overhead in relation to direct labor. The determination of allowable and unallowable expenses is made by reference to the Federal Acquisition Regulations, 48 CFR, Chapter 1, Part 31.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

ABC Engineering, Inc. is a professional design and engineering firm providing consultation in the area of planning, engineering and design. The Company's projects are diverse, including industrial and public facilities, transportation and infrastructure.

The Company was founded in 1982, and its clients include private sector businesses, public utilities, architect-engineers/contractors, and all levels of government. Revenues are derived from billings for services, equipment and reimbursable expenses.

Basis of Accounting and Description of Accounting Systems

The Company maintains its books on the accrual method of accounting. The company also maintains a job-order cost accounting system for the recording and accumulation of costs incurred under its contracts. Each project is assigned a job number so that costs may be segregated and accumulated in the Company's job-order cost accounting system.

The company's method of estimating costs for pricing purposes during the proposal process is consistent with the accumulation and reporting of costs under its job-order cost accounting system.

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Page 2 of 2

ABC ENGINEERING, INC.

**NOTES TO THE STATEMENT OF DIRECT LABOR,
FRINGE BENEFITS, AND GENERAL OVERHEAD**

For the year ended December 31, 20XX

3. EQUIPMENT USE CHARGES

Effective January 1, 20XX, the Company began to account for Computer machine costs as direct reimbursable costs. Prior to that date, Computer costs were accounted for as part of the computed overhead rate. This rate does not include any profit margin, estimated replacement costs, operator labor, or interest. Expenses categories used to develop the billing rate for computers are not included in the firm's computed overhead rate. The reviewed billing rate for Computer usage for year end December 31, 20XX is \$_____ per hour.

4. Summary

The following tabulations summarize the allowable overhead rates incurred by the Company for the year ended December 31, 20XX:

| | | |
|--------------|------------------------|-----------------|
| Description: | Fringe Benefit Rate | 32.068% |
| | General Overhead Rate | <u>122.462%</u> |
| | Combined Overhead Rate | <u>154.530%</u> |

FOR ILLUSTRATIVE PURPOSES ONLY!

**STATEMENT OF DIRECT LABOR, FRINGE
BENEFITS, AND GENERAL OVERHEAD
FOR THE YEAR ENDED DECEMBER 31, 20XX**

ABC ENGINEERING, INC.

| DESCRIPTION | TOTAL REPORTED COSTS | UNALLOWABLE COSTS | REFERENCE FOR UNALLOWABLE COSTS | ALLOWABLE COSTS | % OF DIRECT LABOR |
|--|----------------------------|----------------------|---------------------------------------|--------------------|-------------------------|
| Direct Labor | \$ 392,086 | \$ (92,553) | K | \$ 299,533 | |
| Fringe Benefits | | | | | |
| F.I.C.A. | \$ 36,278 | (1,559) | N | \$ 34,719 | |
| S.U.T.A. | 7,899 | | | 7,899 | |
| F.U.T.A. | 1,187 | | | 1,187 | |
| Group Insurance | 9,021 | | | 9,021 | |
| Worker's Compensation | 6,982 | | | 6,982 | |
| Vacation, Holiday, & Sick Pay | 36,247 | | | 36,247 | |
| Total Fringe Benefits | \$ 97,614 | (1,559) | | \$ 96,055 | 32.068% |
| GENERAL & ADMINISTRATIVE EXPENSES | | | | | |
| Auto Leasing | 7,285 | | | 7,285 | |
| Auto & Truck Expenses | 27,011 | (14,519) | L & M | 12,492 | |
| Advertising | 840 | (840) | F | | |
| Bank Charges | | 266 | B | 266 | |
| Blueprints & Copies | 734 | (734) | D | | |
| Contributions | 635 | (635) | F | | |
| Dues & Subscriptions | 7,682 | | | 7,682 | |
| Employee Benefits | 10,249 | (9,021) | H | 1,228 | |
| Entertainment | 1,376 | (1,376) | G | | |
| Equipment Rental | 217 | | | 217 | |
| Insurance | 70,052 | (8,290) | H & I | 61,762 | |
| Interest | 149 | (149) | E | | |
| Legal & Accounting | 5,535 | | | 5,535 | |
| License & Fees | 20 | | | 20 | |
| Maintenance & Repair | 5,516 | | | 5,516 | |
| Miscellaneous | 13,183 | (6,268) | G & D | 6,915 | |
| Office Expense | 10,151 | | | 10,151 | |
| Postage | 2,035 | (81) | C | 1,954 | |
| Taxes-Property | 1,690 | | | 1,690 | |
| Sub-Contract | 14,936 | (14,936) | D | | |
| Supplies | 7,594 | (7,594) | D | | |
| Telephone | 13,831 | | | 13,831 | |
| Rent | 21,494 | - 0 - | | 21,494 | |
| Utilities | 1,395 | | | 1,395 | |
| Office Furniture | 533 | (533) | A | | |
| Office Equipment | 1,466 | (1,466) | A | | |
| Field Equipment | 30,326 | (30,326) | A | | |
| Computer Hardware | 15,060 | (15,060) | A | | |
| Computer Software | 1,212 | (1,212) | A | | |
| Vehicle Purchase | 33,750 | (33,750) | A | | |
| Non-Productive Salaries | 154,305 | | | 154,305 | |
| Depreciation | | 43,210 | A | 43,210 | |
| Travel | 35,151 | (25,285) | J | 9,866 | |
| Total Overhead | 495,413 | (128,599) | | 366,814 | 122.462% |
| COMBINED OVERHEAD | \$ 593,027 | \$ (130,158) | | 462,869 | 154.530% |

FAR & ADJUSTMENT REFERENCES

| | | | |
|---|--|---|--|
| A | Section 179 assets reported at cost. Used CPA prepared GAAP depreciation schedule & reported under depreciation. | G | 31.205-1 & 14 Unallowed advertising, gifts, & entertainment. |
| B | Credit for allowable expenses excluded by mgmt. | H | Health Ins. Duplicated under Fringe Benefits & G & A. |
| C | 31.205-14 Unallowed Postage for Christmas gifts | I | 31.205-19(a)(2)(iv) Unallowed life ins. Company beneficiary. |
| D | 31.201-4 Project related expenses reimbursed | J | 31.201-5 Direct Lodging & Per Diem Reimbursed |
| E | 31.205-20 Interest expense voluntarily deducted by mgmt. | K | Overstated Direct Labor (Pass through labor). |
| F | 31.205-8 Contributions voluntarily deducted by mgmt. | L | 31.201-5 Direct Mileage Reimbursed. |
| | | M | 31.201.4 Project related mileage. |
| | | N | Adjusted payroll taxes to offset employee paid taxes. |

ATTACHMENT D

LIST OF SELECTED FEDERAL ACQUISITION REGULATIONS COST ADJUSTMENTS

The following abbreviated list of Federal Acquisition Regulations (FAR) expense categories is presented as a guide to accounts that frequently require adjustment. **This list should not be considered complete!** The FAR, 48 CFR, Chapter 1, Part 31, should be used for a complete reference.

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FAR SUMMARY

**CONTRACT COST PRINCIPLES
FEDERAL ACQUISITION REGULATIONS (FAR)**

Factors Affecting the Allowability of Costs

Factors to be considered in determining the allowability of individual items of cost include: (a) reasonableness, (b) allocability, (c) allowability, (d) the application of generally accepted accounting principles and practices appropriate to the particular circumstances, and (e) any limitations or exclusions set forth in the Federal Acquisition Regulations or otherwise included in the contract as to types or amounts of cost items.

NOTE: This is only a summary listing of the FAR, 48 CFR, Chapter 1, Part 31, provisions (see Attachment E for a complete list).

Allowability of Selected Costs

- | | |
|--|--|
| 1. Advertising and Public Relations Costs - FAR-48-31.205-1 | Generally not allowable. |
| 2. Bad Debts and related costs/losses - FAR-48-31.205-3 | Not allowable. |
| 3. Bonding Costs - FAR-48-31.205-4 | Generally allowable. |
| 4. Compensation (Bonuses) - FAR-48-31.205-6 | Generally allowable. However, several restrictions exist for such areas as retroactive adjustments, bonuses, severance pay, back pay, pension plans, employee stock ownership plans (ESOPs), personal use of company-furnished automobiles, etc. (Each of these expense types are to be shown separately on the Statement of Direct Labor, Fringe Benefits, and General Overhead). |
| 5. Contingencies - FAR-48-31.205-7 | Generally not allowable for historical costing purposes. |
| 6. Contributions or Donations - FAR-48-31.205-8 | Not allowable. |

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|---|---|
| 7. Facilities Capital Cost of Money - FAR-48-31.205-10 | Can be allowable. See this section for restrictions. |
| 8. Depreciation - FAR-48-31.205-11 | Generally allowable. See this section for restrictions. |
| 9. Economic Planning Costs - FAR-48-31.205-12 | Generally allowable. However, research, development, and engineering costs designed to lead to new products for sale to the general public are not allowable. |
| 10. Employee Morale, Health, Welfare, Food Service, and Dormitory Costs and Credits - FAR-48-31.205-13 | Generally allowable. See this section for restrictions. |
| 11. Entertainment Costs - FAR-48-31.205-14 | Not allowable (social activities and costs of memberships in social, dining, or country clubs or other organizations having the same purpose). |
| 12. Fines and Penalties - FAR-48-31.205-15 | Not allowable. |
| 13. Gains and Losses on Dispositions of Depreciable Property or Other Capital Assets - FAR-48-31.205-16 | See this section for the proper handling of these items. |
| 14. Idle Facilities and Idle Capacity - FAR-48-31.205-17 | Not allowable in many situations. See this section for restrictions. |
| 15. Independent Research and Development and Bid and Proposal Costs - FAR-48-31.205-18 | Allowable only under specified conditions. See this section for restrictions. |
| 16. Insurance and Indemnification Costs - FAR-48-31.205-19 | Generally allowable. Insurance on the lives of officers, partners, or proprietors is allowable only to the extent that insurance represents additional compensation where the company is not the beneficiary. |
| 17. Interest and Other Financial Costs - FAR-48-31.205-20 | Not allowable. |
| 18. Labor Relations Costs - FAR-48-31.205-21 | Generally allowable. Unionization related costs are not allowable. |

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| 19. Legislative Lobbying Costs - FAR-48-31.205-22 | Not allowable. |
| 20. Excess of costs over income on Other Contracts - FAR-48-31.205-23 | Not allowable. |
| 21. Maintenance and Repair Costs - FAR-48-31.205-24 | Generally allowable. |
| 22. Manufacturing and Production/Engineering Costs - FAR-48-31.205-25 | Generally allowable. |
| 23. Material Costs - FAR-48-31.205-26 | Generally allowable. |
| 24. Organization Costs - FAR-48-31.205-27 and -28 | Not allowable. (However, Registry and transfer of ownership securities, shareholder meetings, reports to shareholders, and reports to taxing and other regulatory bodies are allowable when allocated equitably.) |
| 25. Plant Production Costs - FAR-48-31.205-29 | Generally allowable. |
| 26. Patent Costs - FAR-48-31.205-30 | Generally not allowable (allowable only if required as part of a government contract). |
| 27. Plant Reconversion Costs - FAR-48-31.205-31 | Generally not allowable. See section for exceptions. |
| 28. Pre-Contract Costs - FAR-48-31.205-32 | Generally not allowable. However, costs incurred directly pursuant to contract negotiations before effective date of the contract and necessary to meet delivery schedule may be allowable. |
| 29. Professional and Consultant Services Costs - FAR-48-31.205-33 | Generally allowable if not a direct cost to other contracts. However, restrictions do apply (costs incurred in connection with organization and reorganization; defense against government claims or appeals; or the prosecution, claims, or appeals against the government). See this section for restrictions. |
| 30. Recruitment Costs - FAR-48-31.205-34 | Generally allowable. However, restrictions do apply. See this section for restrictions. |

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|--|--|
| 31. Relocation Costs - FAR-48-31.205-35 | Generally allowable. However, several restrictions apply. |
| 32. Rental Costs – FAR-48-31.205-36 | Generally allowable (does not include ADPE leases). See #2 above. If renting real estate from related parties, restrictions apply. Refer to this section for other restrictions. |
| 33. Royalties and Other Costs For Use of Patents - FAR-48-31.205-37 | Generally allowable. |
| 34. Selling Costs - FAR-48-31.205-38 | Many activities commonly included as selling costs are covered in other areas of these provisions (e.g., advertising, public relations, market planning, etc.). The allowability of those costs is determined by the respective areas. "Direct selling" costs may be allowable, if reasonable. Other types of selling costs are unallowable. |
| 35. Service and Warranty Costs - FAR-48-31.205-39 | Generally allowable. |
| 36. Special Tooling and Special Test Equipment Costs - FAR-48-31.205-40 | Special restrictions apply. See restrictions in this section. |
| 37. Taxes - FAR-48-31.205-41 | Generally allowable except for federal income taxes and certain other taxes. See restrictions in this section. |
| 38. Termination Costs - FAR-48-31.205-42 | Generally allowable. See restrictions in this section. |
| 39. Trade, Business, Technical, and Professional Activity Costs - FAR-48-31.205-43 | Generally allowable. |
| 40. Training and Education Costs - FAR-48-31.205-44 | Allowable in certain instances. See this section for restrictions. |
| 41. Transportation Costs - FAR-48-31.205-45 | Generally allowable. See restrictions in this section. |
| 42. Travel Costs - FAR-48-31.205-46 | Generally allowable, if authorized by the contract and the travel costs meet the restrictions of this section. |

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|---|--|
| 43. Defense of Fraud Proceedings - FAR-48-31.205-47 | Generally not allowable. |
| 44. Deferred Research and Development - FAR-48-31.205-48 | Generally not allowable. |
| 45. Goodwill - FAR-48-31.205-49 | Not allowable. |
| 46. Executive Lobbying Costs - FAR-48-31.205-50 | Not allowable. |
| 47. Cost of Alcoholic Beverages - FAR-48-31.205-51 | Not allowable. |
| 48. Asset Valuations Resulting From Business Combinations - FAR 48-31.205-52. | Limitations exist on the valuation of the assets. |

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ATTACHMENT E

**CONTRACT COST PRINCIPLES AND PROCEDURES
FEDERAL ACQUISITION REGULATIONS**

48 CFR, Chapter 1, Part 31

Please refer to the following WEB site for this attachment:

www.arnet.gov/far/

(Go to PDF Format, then Chapter 1, then Part 31.)

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ATTACHMENT F

**COST ACCOUNTING STANDARDS
FEDERAL ACQUISITION REGULATIONS**

48 CFR, Chapter 99, Part 9904.414

Facilities Capital Cost of Money

To look up CFR's by title, section, etc. select the link of [Retrieve CFR sections by citation](http://www.access.gpo.gov/nara/cfr/cfr-table-search.html) (current and/or historical data) from the WEB site at:

<http://www.access.gpo.gov/nara/cfr/cfr-table-search.html>

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FACILITIES CAPITAL COST OF MONEY INTRODUCTION

Under 48 CFR, Chapter 1, Part 31.205-10, facilities capital cost of money is an imputed cost determined by applying a cost of money rate to facilities capital employed in contract performance. The facilities capital cost of money shall be determined in accordance with 48 CFR, Chapter 99, Subpart 9904.414, Cost Accounting Standard. A portion of the cost accounting standard and its associated worksheet are provided in this attachment for information and use as needed.

The facilities capital cost of money in essence is determined by calculating the average net book value of the firm's capital assets (i.e., land, buildings and equipment) for the fiscal year and multiplying this amount by the cost of money rate, which is promulgated by the Secretary of the Treasury under Public Law 92-41. An illustration of how to perform this calculation is attached.

The facilities capital cost of money need not be entered on the consultants' book of accounts. However, the consultant shall make a memorandum entry of the cost and maintain adequate records that permit audit and verification of all relevant schedules, cost data, and other necessary information to support the entry fully.

For the latest release of 48 CFR, Chapter 1, part 31.205-10, review the following WEB site.

<http://www.arnet.gov/far/loadmainre.html>

(Go down and select Part 31, and then go to 31.205.10)

Rate established by the Secretary of the Treasury pursuant to 31 U.S.C. 3902(a), which is the current rates of interest applicable for this computation can be obtained from the following

website: <http://www.publicdebt.treas.gov/opd/opdprmt2.htm>

If you have additional questions regarding the Facilities Capital Costs of Money please contact the Idaho Transportation Department's Internal Review Manager at (208) 334-8834.

Other references:

Renegotiation Act of 1971 (P.L. 92-41)

Contract Dispute Act of 1978 (P.L. 95-263)

Prompt Payment Act (P.L. 97-177)

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FACILITIES CAPITAL COST-OF-MONEY

| | | Account Balances from Balance Sheet on <u>01/01/XX</u> | Account Balances from Balance Sheet on <u>12/31/XX</u> |
|-------------------------------|-----------|---|---|
| Land | | \$ 50,000 | \$50,000 |
| Building | \$400,000 | | \$400,000 |
| Less Accumulated Depreciation | (200,000) | 200,000 | (210,000) |
| | | | 190,000 |
| Equipment | 150,000 | | 150,000 |
| Less Accumulated Depreciation | (100,000) | <u>50,000</u> | (110,000) |
| | | | <u>40,000</u> |
| Net Book Value | | <u>\$300,000</u> | <u>\$280,000</u> |

$\$300,000 + \$280,000 = \$580,000 \div 2 = \$290,000$ Average Net Book Value

| | |
|-----------------------------------|------------------|
| Average Net Book Value | \$290,000 |
| x U.S. Treasury Rate ¹ | <u>.05375</u> |
| Facilities Capital Cost-of-Money | <u>\$ 15,588</u> |

| | |
|----------------------------------|----------------|
| Facilities Capital Cost-of-Money | \$ 15,588 |
| ÷ Direct Labor (for XX) | <u>450,000</u> |

| | |
|---|---------------|
| Facilities Capital Cost-of-Money Factor | <u>3.464%</u> |
|---|---------------|

¹The Cost-of-Money Rate for calendar year 2002 is 5.5% from 1/1/02 to 6/30/02 and 5.25% from 7/1/02 to 12/31/02, which averages 5.375% for the year.